

ANSOFF MATRIX

GROWTH
STRATEGY

A Strategic Planning Tool for Growth

The **Ansoff Matrix** is a tool to help you assess different growth strategies for your business.

The objective is to **maximise growth** while taking on the **least risk**.



The Four Growth Strategies & Levels of Risk

The Ansoff Matrix identifies four growth strategies with differing risk levels

LOWEST

Market Penetration
The lowest level risk is to sell existing products to existing markets

MEDIUM

Market Development
Medium level risk is to sell existing products to new markets

OR

MEDIUM

Product Development
A new product to an existing market.

HIGHEST

Diversification
The riskiest is to sell a new product to a new market



Strategies in Focus

#1 Market Penetration



The object here is to grow your current product or service offering within existing markets that you are already familiar with.

Market penetration strategies can include:

- Acquiring a competitor that operates in the same market.
- Driving up marketing efforts.
- Increasing the number of stores/retailers in your existing regions.
- Cutting prices to attract new customers within the market segment.
- Expanding distribution networks to access a bigger share of the market.

Market penetration is the lowest risk of the four strategies.

Strategies in Focus

#2 Market Development



Market Development is about selling more of the company's existing products to new markets.

A new market can be:

1. International and/ or geographic, or
2. A new customer segment (demographic, behavioural, or psychological)

If the product/service has already been tested in one market, it may not require significant investment in R&D or product development — you are selling a product with a proven roadmap.

Examples of market development strategies include:

- Acquiring a company that offers same/similar products or services in a new geographic market.
- Acquiring a company that gives you access to a new customer base, for example you may offer architecture services to the commercial market, but you want to acquire a firm that has a stronghold in the government sector.
- Regional or international expansion of your business. IKEA is a great example of this with 466 IKEA stores in 63 countries (at Apr 2022).

Strategies in Focus

#3 Product Development



You have an existing market or target audience, and you'd like to get a greater share of wallet from that customer base.

For example, you may have a software platform that you can modify to give increased value to customers, or you are considering launching new products alongside your existing product offering.

Product development strategies can include:

- Investing in R&D to develop a new product.
- Acquiring the rights to produce and sell another firm's product(s).
- Creating a new offering by branding a white-label product that's produced by a third party.

Strategies in Focus

#4 Diversification



This is the riskiest because you are trying to sell completely different products or services to different customers. There is often little scope for using existing expertise or for achieving economies of scale. While the focus may be expansion, the main advantage of diversification is that, should one business suffer from adverse circumstances, another may not be affected.

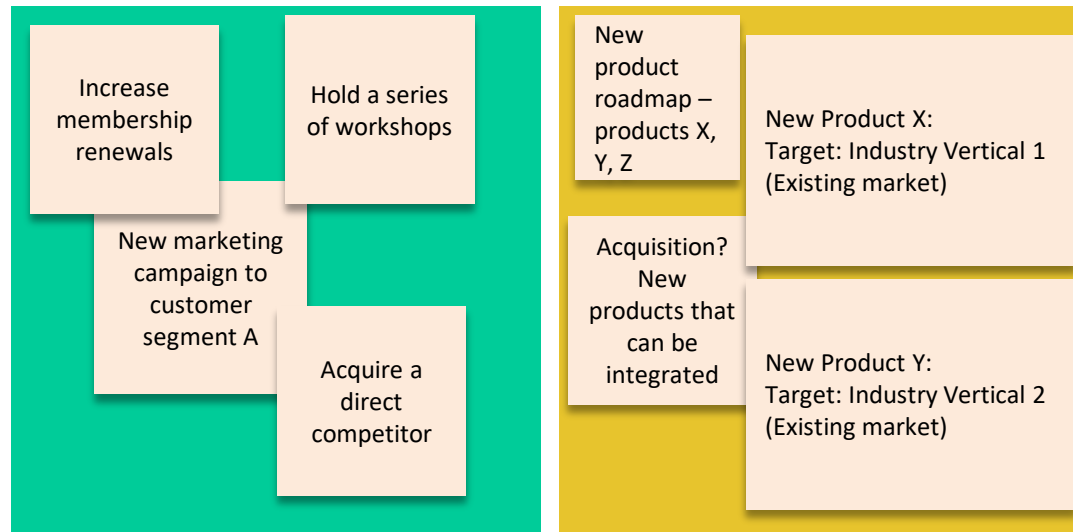
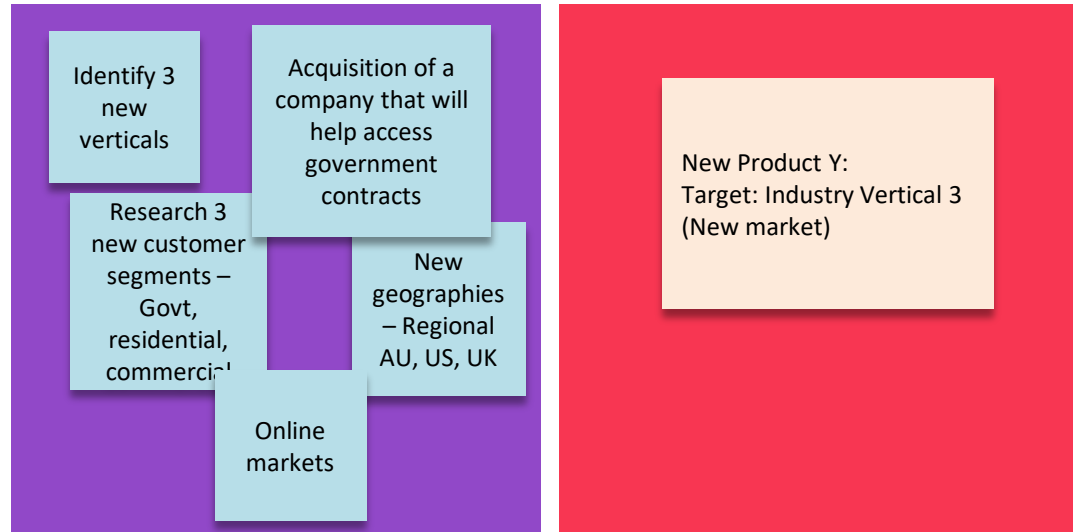
Companies will generally use a diversification strategy for three main reasons, to:

1. Mitigate market risk.
2. Protect their business from the competition.
3. Increase their profits and variety of products stocked.

Making the decision to diversify requires a lot of analysis work, and while success stories abound — such as General Electric, Disney, 3M, Apple — there are many that have failed.

There are two kinds of diversification: related and unrelated. However, the more that businesses move away from their core competencies, the greater the chance of problems emerging.

How Can the Ansoff Matrix Help You?



Existing Product

New Products

Are you facing any of these situations?

Sales have plateaued

Focus initially on Market Penetration and identify ways to capture more of your existing market through lead generation and marketing campaigns.

Market Saturation

You've reached the limits of your current market. Perhaps there are opportunities to sell online to expand your reach – this could give you access to national or international markets. Or is there opportunity to open a new office or location in a new city?

Customers Keep Asking

People keep asking when you are going to add something, this is a sign that you may have a market for it. It's worth doing some research to see if it's viable.

Gap in the market

Is there a gap in the market that you can fill? Perhaps it's outside your existing sphere. If you plan to diversify, understand the risks and do the due diligence before taking the leap.

Try it at your next strategic planning day



The Ansoff Matrix is a simple tool that can be used with your team for strategic planning.

Pairing it with complementary tools such as SWOT, Competitor Analysis, PESTEL and Decision Making Matrix can make your forward planning really effective.

Some businesses find it useful to do the Ansoff Matrix exercise more regularly, especially if there is lots of movement in their industry.

A successful strategy should help your business grow and succeed, and that's what the Ansoff Matrix does best.

About Us

At Exit Advisory Group, we help business owners build valuable, scalable and saleable businesses.

Whether your plan is to grow, transition the business to the next generation, or sell for maximum value, get in touch, we'd love to have a chat!

Growth & Exit Strategy | Business Valuation | Business Sales

Let's start a conversation

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